

DISCLOSURE MATRIX—Continued

	Public entities	Nonpublic entities
Interest Cost	X	
Actuarial Gain	X	
Plan Amendments	X	
Benefits Paid	X	
Benefit obligation at end of year	X	X
<i>Change in plan assets:</i>		
Fair value of plan assets begin- ning of year	X	
Actual return on plan assets	X	
Employer Contribution	X	X
Contributions by plan partici- pants	X	X
Benefits Paid	X	X
Fair value of plan assets at end of year	X	X
<i>Funded status:</i>		
Unrecognized net actuarial loss (gain)	X	X
Unamortized prior service cost ..	X	X
Unrecognized transition obliga- tion	X	X
Prepaid (Accrued) benefit cost ..	X	X
<i>Weighted-average assumptions as of December 31:</i>		
Discount rate	X	X
Expected return on plan assets	X	X
Rate of compensation increase	X	X
<i>Components of net periodic benefit cost:</i>		
Service cost	X	
Interest cost	X	
Expected return on plan assets	X	
Amortization of prior service cost	X	X
Amortization of transition obliga- tion	X	X
Recognized net actuarial loss ...	X	X
Net periodic benefit cost	X	X

[61 FR 39847, July 31, 1996, as amended at 70 FR 25758, May 16, 2005]

PART 1773—POLICY ON AUDITS OF RUS BORROWERS AND GRANTEES

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AUTHORITY: 7 U.S.C. 901 *et seq.*, 7 U.S.C. 1921 *et seq.*, 7 U.S.C. 6941 *et seq.*

SOURCE: 83 FR 19907, May 7, 2018, unless otherwise noted.

Subpart A—General Provisions

§ 1773.1 General.

(a) This part implements the standards for audits required by the loan and grant agreements of Rural Utilities Service (RUS) electric and telecommunications borrowers and grantees. The provisions require auditees to prepare and furnish to RUS, at least once during each 12-month period, a full and complete report of its financial condition, operations, and cash flows, in form and substance satisfactory to RUS, audited and certified by an independent auditor, satisfactory to RUS, and accompanied by a report of such

audit, in form and substance satisfactory to RUS.

(b) This part is based on the requirements of GAGAS in effect at the time of the audit and applicable RUS regulations and subpart F (Audit Requirements) of 2 CFR part 200 (Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards) (2 CFR 200.500–200.521).

(c) This part further sets forth the criteria for selecting auditors satisfactory to RUS and certain audit procedures and audit documentation that must be performed and prepared before an audit report will be accepted by RUS.

(d) Failure to provide an audit in compliance with this part is a serious violation of the RUS Security Agreement. RUS relies on audited financial statements in order to assess and monitor the financial condition of its borrowers and grantees and to fulfill its fiduciary responsibilities.

(e) RUS reserves the right to suspend its acceptance of audits performed by auditors who, in the opinion of RUS, are not meeting the requirements of this part or with unresolved disputes or issues until such time that the matter can be resolved to RUS' satisfaction.

§ 1773.2 Definitions.

As used in this part:

2 CFR part 200, subpart F means 2 CFR part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, subpart F, Audit Requirements, as adopted by USDA in 2 CFR part 400.

AA-PARA means RUS Assistant Administrator, Program Accounting and Regulatory Analysis.

Administrator means the Administrator of RUS.

Affiliated company means a company that directly or indirectly through one or more intermediaries, control or are controlled by, or are under common control with, the auditee.

AICPA means the American Institute of Certified Public Accountants.

ASC means the Accounting Standards Codification issued by the Financial Accounting Standards Board.

Audit means an examination of financial statements by an independent auditor for the purpose of expressing

an opinion on the fairness with which those statements present financial position, results of operations, and changes in cash flows in accordance with accounting principles generally accepted in the United States of America (GAAP) and for determining whether the auditee has complied with applicable laws, regulations, and provisions of loan or grant contracts and grant agreements that could have a material effect on the financial statements.

Audit date means the "as of" date established by the auditee.

Audit documentation has the same meaning as defined in the AICPA's professional auditing standards.

Auditee means an RUS borrower and/or grantee that is required to submit an annual audit as a condition of the award.

Auditor means government auditors as well as certified public accounting firms that perform audits using generally accepted government auditing standards (GAGAS).

BCAS means Broadband Collection and Analysis System (or successor system).

Borrower means an entity that has an outstanding RUS or Federal Financing Bank (FFB) loan or loan guarantee.

CPA means a Certified Public Accountant.

DCS means the Data Collection System (or successor system).

FASB means Financial Accounting Standards Board.

FFB means the Federal Financing Bank, a body corporate and instrumentality of the United States of America under the general supervision of the Secretary of the Department of the Treasury.

Fraud has the same meaning as defined in the AICPA's professional auditing standards.

GAAP has the same meaning as defined in accounting standards issued by the Government Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).

GAGAS means generally accepted government auditing standards as set forth in Government Auditing Standards, issued by the Comptroller General of the United States, Government Accountability Office.

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GAO means the United States Government Accountability Office.

GASB means Government Accounting Standards Board.

Governance board means the auditee's board of directors, managing members, or other official body charged with governance.

Grantee means an entity that has a continuing responsibility under a grant agreement with RUS.

Illegal act has the same meaning as defined by the Public Company Accounting Oversight Board.

Material weakness has the same meaning as defined in the AICPA's professional auditing standards.

OIG means the Office of the Inspector General, United States Department of Agriculture.

OMB means The Office of Management and Budget.

Regulatory asset means an asset resulting from an action of a regulator as defined by FASB.

Regulatory liability means a liability imposed on a regulated enterprise by an action of a regulator as defined by FASB.

Related party has the same meaning as defined by FASB.

Reporting package means:

- (1) The auditor's report on the financial statements;
- (2) The report on internal control over financial reporting and on compliance and other matters;
- (3) The report on compliance with aspects of contractual agreements and regulatory requirements;
- (4) The schedule of findings and recommendations; and
- (5) All supplemental schedules and information required by this part.

RUS means the Rural Utilities Service, an agency of the United States Department of Agriculture.

RUS Bulletin 1773-1, Policy on Audits of RUS Borrowers and Grantees, is a publication prepared by RUS that contains the RUS regulation 7 CFR part 1773 and exhibits of sample audit reports, financial statements, reports on internal control over financial reporting and on compliance and other matters, report on compliance with aspects of contractual agreements and regulatory requirements, and schedule of findings and recommendations used in

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preparing audits of RUS borrowers and grantees. This bulletin is available on the internet at <https://www.rd.usda.gov/publications/regulations-guidelines/bulletins/program-accounting>.

RUS security agreement means a loan agreement, grant agreement, mortgage, security agreement, or other form of agreement that governs the terms and conditions of, or provides security for, loan and/or grant funds provided by RUS to the auditee.

Significant deficiency has the same meaning as defined in the AICPA's professional auditing standards.

Single Audit Act means Single Audit Act of 1984 (31 U.S.C. 7501 *et seq.*) as implemented by 2 CFR part 200, subpart F.

State means any state or territory of the United States, or the District of Columbia.

Uniform System of Accounts means, for telecommunications borrowers, Bulletin 1770B-1, Accounting Requirements for RUS Telecommunications Borrowers (https://www.rd.usda.gov/files/UTP_Bulletins_1770B-1.pdf), and for electric borrowers, as contained in 7 CFR part 1767, Accounting Requirements for RUS Electric Borrowers, subpart B—Uniform System of Accounts, Bulletin 1767B-1, (https://www.rd.usda.gov/files/UPA_Bulletin_1767B-1.pdf).

Subpart B—RUS Audit Requirements

§ 1773.3 Annual audit.

(a) Each auditee must have its financial statements audited annually by an auditor selected by the auditee and approved by RUS as set forth in §1773.4. All auditees must submit audited financial statements on a comparative basis covering two consecutive 12 month periods, unless the entity has not been in existence for two consecutive 12-month audit periods. Consolidated statements of the parent are not an acceptable replacement for an audit of the auditee.

(b) Each auditee must establish an annual audit date within 12 months of the date of the first advance and must prepare annual financial statements for the audit date established. Each auditee must notify the AA-PARA of

the audit date at least 90 days prior to the selected audit date.

(c) Auditees must furnish a reporting package to RUS within 120 days of the audit date. (See §1773.21). Until all loans made or guaranteed by RUS are repaid and unliquidated obligations rescinded, auditees that are borrowers must continue to provide annual audited financial statements. Auditees that are grantees must furnish annual audited financial statements in the year of the first advance and until all funds have been advanced or rescinded, and all financial compliance requirements have been fully satisfied.

(d) In addition to the requirements of this part, certain auditees may be subject to the Single Audit Act. An auditee that is defined as a Non-Federal Entity as defined in 2 CFR 200.69 means a state, local government, Indian tribe, institution of higher education (IHE), or nonprofit organization that carries out a Federal award as a recipient or subrecipient and is required to meet the requirements of this part as follows:

(1) Borrowers and/or grantees expending the threshold established for the Single Audit Act (currently \$750,000) or more in Federal awards during the year must have an audit performed in accordance with the Single Audit Act. See 2 CFR 200.502, Basis For Determining Federal Awards Expended, for guidance in determining annual expenditures. The audited financial statements must be submitted to RUS and to the Federal Audit Clearinghouse.

(2) For auditees expending less than the threshold for expenditure in Federal awards during the year, RUS reserves its right under 2 CFR 200.503, Relationship to other audit requirements, to arrange for an audit performed in accordance with this part.

(3) Within 30 days of the audit date, auditees must notify the AA-PARA, in writing, of the total Federal awards expended during the year and must state whether the audit will be performed in accordance with the Single Audit Act, or this part.

(i) An auditee electing to comply with this part must select an auditor that meets the qualifications set forth in §1773.5.

(ii) If an audit is performed in accordance with the Single Audit Act, the auditor's reporting on the financial statements that meet the requirements of the Single Audit Act, will be sufficient to satisfy the auditee's obligations under this part.

(e) Subpart F of 2 CFR part 200 does not apply to audits of RUS electric and telecommunications cooperatives and for-profit telecommunications borrowers unless the borrower has contractually agreed with another Federal agency (*e.g.* Federal Emergency Management Agency) to provide a financial audit performed in accordance with 2 CFR part 200, subpart F. In no circumstance will an auditee be required to submit separate audits performed in accordance with this part and 2 CFR part 200, subpart F.

§ 1773.4 Auditee's responsibilities.

(a) *Selection of a qualified auditor.* The auditee's governance board is responsible for the selection of a qualified auditor that meets the requirements set forth in §1773.5. When selecting an auditor, the auditee should consider, among other matters:

(1) The qualifications of auditors available to do the work;

(2) The auditor's experience in performing audits of utilities, related industries, or in the case of grantees, experience in auditing entities comparable to the grantee; and

(3) The auditor's ability to complete the audit and submit the reporting package within 90 days of the audit date.

(b) *Board approval of selection.* The board's approval of an auditor must be recorded by a board resolution that states:

(1) The auditor represents that it meets RUS qualifications to perform an audit; and

(2) The auditee and auditor will enter into an audit engagement in accordance with §1773.6.

(c) *Notification of selection.* When the initial selection or subsequent change of an auditor has been made, the auditee must notify the AA-PARA, in writing, at least 90 days prior to the audit date.

(1) Within 30 days of the date of receipt of such notice, RUS will notify

the auditee, in writing, if the selection or change in auditor is not satisfactory.

(2) Notification to RUS that the same auditor has been selected for succeeding audits of the auditee's financial statements is not required; however, the procedures outlined in this part must be followed for each new auditor selected, even though such auditor may previously have been approved by RUS to audit records of other RUS auditees. Changes in the name of an auditor are considered to be a change in the auditor.

(d) *Audit engagement letter.* The auditee must enter into an audit agreement with the auditor that complies with §1773.6 prior to the initiation of the audit.

(e) *Debarment certification.* The auditee must obtain, from the selected auditor, a lower tier covered transaction certification (Form AD-1048, Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion—Lower Tier Covered Transactions), as required by Executive Orders 12549 and 12689, Debarment and Suspension, and any rules or regulations issued thereunder.

(f) *Peer review report.* The auditee must obtain, from the selected auditor, a copy of the auditor's current approved peer review report.

(g) *Preparation of schedules.* The auditee must prepare any schedules that are required by the auditor to perform the audit, including a schedule of deferred debits and deferred credits and a detailed schedule of investments in subsidiary and affiliated companies accounted for on the cost, equity, or consolidated basis. The detailed schedule of investments can be included in the notes to the financial statements or as a separate schedule as long as all information required is adequately disclosed. Samples of these schedules can be found in Appendices A–D, of RUS Bulletin 1773-1.

(1) The schedule of deferred debits and deferred credits must include a description of the deferral and a notation as to whether the deferral has received written approval from RUS. If a determination is made that prior written approval is not required, cite the specific authority for the deferral.

(2) The schedule of investments must include investments in subsidiary and affiliated companies, corporations, limited liability corporations and partnerships, joint ventures, etc. accounted for on either the cost, equity or on a consolidated basis. For all investments, the auditee must list the name of the entity, ownership percentage, and the principal business in which the entity is engaged. For investments recorded on the cost basis, the auditee must include the original investment, advances, dividends declared or paid in the current and prior years and the net investment. For investments recorded on the equity or consolidated basis, the auditee must include the ownership percentage, original investment, advances, dividends declared or paid in the current and prior years, and current and prior years' earnings and losses, including accumulated losses in excess of the original investment.

(h) *Scope limitations.* The auditee will not limit the scope of the audit to the extent that the auditor is unable to provide an unqualified opinion that the financial statements are presented fairly in conformity with GAAP due to the scope limitation.

(i) *Submission of reporting package.* The auditee must submit to RUS the required reporting package as set forth in §1773.21.

(1) A reporting package that fails to meet the requirements detailed in this part will be returned to the auditee with a written explanation of non-compliance.

(2) The auditee must, within 30 days of the date of the letter or email detailing the noncompliance, submit a corrected reporting package to RUS.

(3) If a corrected reporting package is not received within 30 days of the date of the letter or email detailing the noncompliance, RUS will take appropriate action, depending on the severity of the noncompliance.

(j) *Submission of a plan of corrective action.* If the auditor's report contains findings and recommendations but does not include the auditee's response, the auditee must submit written responses to RUS within 180 days of the audit date. The written responses must address:

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(1) The corrective action already taken or planned, or the reason the auditee believes no action is necessary; and

(2) The status of corrective action taken on previously reported findings and recommendations.

§ 1773.5 Qualifications of the auditor.

Auditors that meet the qualifications criteria of this section and enter into an audit engagement with the auditee that complies with § 1773.6, will be considered satisfactory to RUS.

(a) *Licensing.* Auditors that audit the financial statements of an RUS auditee must be licensed to perform attestation engagements in the United States of America. Auditors do not have to be licensed by the state in which the auditee is located; however, auditors must abide by the rules and regulations of professional conduct promulgated by the accountancy board of the state in which the auditee is located.

(b) *Independence.* Auditors must be independent as determined by the standards for independence in the AICPA Code of Professional Conduct and in GAGAS in effect at the time of the audit.

(c) *Peer review requirement.* Auditors must be enrolled and participating in a peer review program, and must have undergone a satisfactory peer review of their accounting and audit practice. The peer review must be in effect at the date of the audit report opinion.

(1) *Peer review reports.* RUS reserves the right to request peer review reports from selected auditors.

(2) *Peer review requirements for new auditors.* New auditing firms must meet the requirements of their state board of accountancy with regard to enrolling in a peer review program, timing of the first peer review, and any other peer review requirements.

§ 1773.6 Auditor communication.

(a) GAGAS and AICPA standards require that the auditor communicate with the auditee the auditor's understanding of the services to be performed and document that understanding through a written communication to those charged with governance. To be acceptable to RUS, the auditor's communication must take

the form of an audit engagement letter prepared by the auditor and must be formally accepted by the governance board or an audit committee representing the governance board. In addition to the requirements of the AICPA's professional auditing standards and GAGAS, the engagement letter must also include the following:

(1) The nature of planned work and level of assurance to be provided related to internal control over financial reporting and compliance with laws, regulation, and provision of contracts or grant agreements;

(2) That the auditee and auditor acknowledge that the audit is being performed and that the reporting package is being issued to enable the auditee to comply with the provisions of RUS's security instrument which requires compliance with this part;

(3) That the auditor acknowledges the mandatory reporting requirements for fraud, illegal acts, or noncompliance with provisions of laws, regulations, contracts, and grant agreements in § 1773.9. Acceptance of the engagement letter by the auditee is required, thus granting the auditor permission to directly notify the appropriate officials which may include but is not limited to the governance board, RUS, and OIG;

(4) That the auditor acknowledges that it is required under § 1773.7 to contact RUS if the auditor is unable to resolve scope limitations imposed by the auditee, or if such limitations in scope violate this part. Acceptance of the engagement letter by the auditee is required, thus granting the auditor permission to directly notify the AAPARA as needed;

(5) That the auditee and auditor acknowledge that RUS will consider the auditee to be in violation of its RUS Security Agreement and this part if the auditee fails to have an audit performed and documented in compliance with GAGAS and this part;

(6) That the auditor represents that it meets the requirements under this part to perform the audit;

(7) That the auditor will perform the audit and will prepare the reporting package in accordance with the requirements of this part;

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(8) That the auditor will document the audit work performed in accordance with GAGAS, and the requirements of this part; and

(9) That the auditor will make all audit documentation, including the reporting package available to RUS or its representatives (including but not limited to OIG and GAO), upon request, and will permit the photocopying of all such audit documentation.

(b) A copy of the audit engagement letter must be available at the auditee's office for inspection by RUS personnel. One copy of the current audit engagement letter must be maintained in the auditor's audit documentation.

§ 1773.7 Audit standards.

(a) The audit of the financial statements must be performed in accordance with GAGAS and this part in effect at the audit date unless the auditee is directed otherwise, in writing, by RUS.

(b) The audit of the financial statements must include such tests of the accounting records and such other auditing procedures that are sufficient to enable the auditor to express an opinion on the financial statements and to issue the required reporting package.

(c)(1) The auditee will not limit the scope of the audit to the extent that the auditor is unable to meet RUS audit requirements without prior written approval of the AA-PARA.

(2) If the auditor determines during the audit that an unqualified opinion cannot be issued due to a scope limitation imposed by the auditee, the auditor should use professional judgment to determine what levels of the auditee's management and/or those charged with governance should be informed.

(3) After informing the auditee's management and/or those charged with governance, if the scope limitation is not adequately resolved, the auditor should immediately contact the AA-PARA.

§ 1773.8 Audit date.

(a) The annual audit must be performed as of the end of the same calendar month each year unless prior approval to change the audit date is obtained, in writing, from RUS.

(1) An auditee may request a change in the audit date by writing to the AA-PARA at least 60 days prior to the currently approved audit date, providing justification for the change.

(2) The time period between the prior audit date and the newly requested audit date must be no longer than twenty-three months.

(3) Comparative financial statements must be prepared and audited for the 12 months ending as of the new audit date and for the 12 months immediately preceding that period.

§ 1773.9 Disclosure of fraud, and non-compliance with provisions of laws, regulations, contracts, and loan and grant agreements.

(a) In accordance with GAGAS, the auditor is responsible for planning and performing the audit to provide reasonable assurance about whether the financial statements are free of material misstatement due to error or fraud. The auditor must also plan the audit to provide reasonable assurance of detecting material misstatements resulting from violations of provisions of laws, regulations, contracts or loan and grant agreements that could have a direct and material effect on the financial statements.

(b) If specific information comes to the auditor's attention that provides evidence concerning the existence of possible violations of provisions of laws, regulations, contracts or loan and grant agreements that could have a material indirect effect on the financial statements, the auditor should apply audit procedures specifically directed to ascertaining whether a violation of provisions of laws, regulations, contract or grant agreements has occurred.

(c) Pursuant to the terms of its audit engagement letter with the auditee, the auditor must immediately report, in writing, all instances of fraud, illegal acts, and all indications or instances of noncompliance with laws, whether material or not, to:

(1) The president of the auditee's governance board;

(2) AA-PARA; and

(3) OIG, as follows:

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(i) For all audits performed in accordance with §1773.3(d) (audits conducted in accordance with 2 CFR part 200 “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards”), report to the USDA–OIG–Audit, National Single Audit Coordinator for USDA, 401 W. Peachtree St NW, Room 2328, Atlanta, GA 30308.

(ii) For all other audits conducted in accordance with §1773.3 report to the appropriate office based on location. See <https://www.usda.gov/oig/national.htm> to determine the correct reporting location.

§ 1773.10 Access to audit documentation.

Pursuant to the terms of this part and the audit engagement letter, the auditor must make all audit documentation available to RUS, or its designated representative, upon request and must permit RUS, or its designated representative, to photocopy all audit documentation.

§§ 1773.11–1773.19 [Reserved]

Subpart C—RUS Requirements for the Submission and Review of the Reporting Package

§ 1773.20 The auditor’s submission of the reporting package.

(a) *Time limit.* Within 90 days of the audit date, the auditor must deliver the reporting package to the auditee’s governance board. At a minimum, copies should be provided for each member of the governance board and the manager. The auditor must also provide an electronic copy of the audit which meets the requirements of §1773.21 for subsequent transmittal to RUS.

(b) *Communication with the governance board.* In addition to providing sufficient copies of the reporting package for each member of the auditee’s governance board, RUS requires that the auditor report all audit findings to the auditee’s governance board. RUS recommends that audit findings also be communicated orally unless oral communication would not be adequate. If the information is communicated orally, the auditor must document the communication by appropriate memo-

randa or notations in the audit documentation. If the auditor communicates in writing, a copy of the written communication must be included in the auditor’s audit documentation.

(c) *Matters to be communicated.* Matters communicated to those charged with governance must include, but are not limited to the matters to be communicated as prescribed in the AICPA’s professional standards AU–C Section 260, “The Auditor’s Communication with Those Charged with Governance”.

§ 1773.21 Auditee’s review and submission of the reporting package.

(a) The auditee’s governance board should note and record receipt of the reporting package and any action taken in response to the reporting package in the minutes of the board meeting at which such reporting package is presented.

(b) The auditee must furnish RUS with an electronic copy of the reporting package within 120 days of the audit date as provided for in §1773.3.

(c) The auditee must furnish AA–PARA with a copy of its plan for corrective action, if any, within 180 days of the audit date.

(d) The auditee must include in the reporting package a copy of each special report, summary of recommendations or similar communications, if any, received from the auditor as a result of the audit.

(e) All required submissions to RUS described in paragraphs (b) through (d) of this section should be furnished electronically. The electronic copy must be provided in a Portable Document Format (PDF). Auditees with a designation from 0001 through 0199 in the Electric program and 500 through 699 in the Telecommunications programs shall upload the reporting package to the DCS or its successor system. Borrowers and/or grantees with a designation from 1100 through 1199, 1300 through 1399, and 1400 through 1499 in the Broadband program shall upload the reporting package to the BCAS or its successor system. All other borrowers and/or grantees may upload their reporting package through DCS or its successor system. Specific instructions for submission are available from the

Technical Accounting and Auditing Staff.

§§ 1773.22–1773.29 [Reserved]

Subpart D—RUS Reporting Requirements

§ 1773.30 [Reserved]

§ 1773.31 Auditor’s report on the financial statements.

The auditor must prepare a written report on comparative balance sheets, statements of revenue and patronage capital (or statement of operations customary to the type of entity reporting) and statements of cash flows. The report must include the manual or printed signature of the auditor, cover all statements presented, and refer to the separate report on internal controls over financial reporting and on compliance and other matters and the report on compliance with aspects of contractual agreements and regulatory requirements issued in conjunction with the auditor’s report on the financial statements. The auditor’s report on the financial statements should also state that the report on internal controls over financial reporting and on compliance and other matters is an integral part of a GAGAS audit, and in considering the results of the audit, that this report should be read along with the auditor’s report on the financial statements.

§ 1773.32 Report on internal control over financial reporting and on compliance and other matters.

(a) As required by GAGAS, the auditor must prepare a written report describing the scope of the auditor’s testing of internal control over financial reporting and of compliance with provisions of laws, regulations, contracts, and loan and grant agreements, and that the tests provided sufficient, appropriate evidence to support opinions on the effectiveness of internal control and on compliance with provisions of laws, regulations, contracts, and loan and grant agreements. This report must include the manual or printed signature of the auditor and must include the following items as appropriate:

(1) Significant deficiencies and material weaknesses in internal control;

(2) Instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance;

(3) Noncompliance with provisions of contracts or grant agreements that have a material effect on the audit; and

(4) Abuse that has a material effect on the audit.

(b) When the auditor detects instances of noncompliance or abuse that have an effect on the financial statements that are less than material but warrant the attention of those charged with governance, they should communicate those findings in writing to those charged with governance in a separate communication. If the auditor has issued a separate communication detailing immaterial instances of noncompliance or abuse, the report on internal controls over financial reporting and on compliance and other matters must be modified to include a statement such as:

“We noted certain immaterial instances of noncompliance [and/or abuse], which we have reported to the management of (auditee’s name) in a separate letter dated (month, day, 20XX).”

(c) If the auditor has issued a separate letter to management to communicate other matters involving the design and operation of the internal control over financial reporting, the report on internal controls over financial reporting and on compliance and other matters must be modified to include a statement such as:

“However, we noted other matters involving the internal control over financial reporting that we have reported to the management of (auditee’s name) in a separate letter dated (month, day, 20XX).”

(d) The report must contain the status of known but uncorrected deficiencies from prior audits that affect the current audit objective.

§ 1773.33 Report on compliance with aspects of contractual agreements and regulatory requirements.

The auditor must prepare a report on compliance with aspects of contractual agreements and regulatory requirements that includes, at a minimum, comments on:

(a) *Audit procedures.* State whether the audit has been performed in accordance with this part;

(b) *Special reports.* State whether any special reports, summaries of recommendations, or similar communications were furnished to the auditee's management during the course of the audit or during interim audit work, and provide a description of the information furnished;

(c) *Accounting and records.* Comment on whether, during the course of the audit, anything came to the auditor's attention to indicate that the auditee did not maintain adequate and effective accounting procedures and records and utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and for distributing these costs to construction, retirement, and maintenance or other expense accounts. Where appropriate, comment on whether anything came to the auditor's attention to indicate that the auditee did not:

(1) Establish continuing property records (CPRs) that are updated on a current basis, at least annually, and are reconciled with the controlling general ledger plant accounts;

(2) Promptly clear construction clearing accounts of costs of completed construction to the proper classified plant accounts and accrue depreciation on such completed construction from the date the plant was placed in service;

(3) Currently and systematically record and properly price retirements of plant;

(4) Properly account for the accumulated provision for depreciation accounts associated with retirements of plant or properly disclose any unusual charges or credits to such accounts; and

(5) Obtain RUS approval for the sale, lease or transfer of capital assets secured under the RUS security agreement when approval is required, and

properly handle any proceeds from the sale or lease of plant, material or scrap in conformance with RUS requirements.

(d) *Materials control.* Comment on whether, during the course of the audit, anything came to the auditor's attention to indicate that the control over materials and supplies was not adequate.

(e) *Compliance with RUS loan and security instrument provisions.* Comment on whether, during the course of the audit, anything came to the auditor's attention to indicate that the following provisions of RUS' loan and security instruments have not been complied with:

(1) For electric auditees, provisions related to:

(i) The requirements for an auditee to obtain written approval of mortgagees to enter into any contract for the management, operation, or maintenance of the auditee's system if the contract covers all or substantially all of the electric system. For purposes of this part, the following contracts shall be deemed as requiring RUS approval:

(A) Management contracts in which the auditee has contracted to have another auditee or other entity manage its affairs;

(B) Operations and maintenance contracts in which the auditee has contracted to have another auditee or other entity operate and/or maintain all or substantially all of the physical plant facilities of the auditee.

(C) Operations and maintenance contracts in which the auditee has contracted to operate and maintain the physical plant facilities of another auditee or other utility system;

(ii) The requirement for an auditee to prepare and furnish mortgagees annual or periodic financial and operating reports on the auditee's financial condition and operations accurately and within the required deadlines. The auditor shall comment on whether, during the course of the audit, anything came to the auditor's attention to indicate that the information represented by the auditee as having been submitted to RUS in its most recent December 31 Financial and Operating Report Electric Distribution or Financial and Operating Report Electric

Power Supply was not in agreement with the auditee's audited records. If the auditee represents that an amended report has been filed as of December 31, the comments must relate to the amended report; and

(iii) The requirement for an auditee to use depreciation rates that are within the ranges established by RUS for each primary plant account (See RUS Bulletin 183-1, Depreciation Rates and Procedures at https://www.rd.usda.gov/files/UPA_Bulletin_183-1.pdf), or with the requirements of the state regulatory body having jurisdiction over the auditee's depreciation rates in computing monthly accruals.

(2) For telecommunications auditees, provisions related to:

(i) The requirement for an auditee to obtain written approval of the mortgagees to enter into any contract, agreement or lease between the auditee and an affiliate other than as allowed under 7 CFR part 1744, subpart E; and

(ii) The requirement for an auditee to prepare and furnish mortgagees annual or periodic financial and operating reports on the auditee's financial condition and operations accurately and within the required deadlines. The auditor shall comment on whether, during the course of the audit, anything came to the auditor's attention to indicate that the information represented by the auditee as having been submitted to RUS in its most recent December 31 Operating Report for Telecommunications Borrowers was not in agreement with the auditee's audited records. If the auditee represents that an amended report has been filed as of December 31, the comments must be related to the amended report.

(3) For Broadband auditees, provisions relating to the requirement for an auditee to prepare and furnish mortgagee quarterly or periodic financial and operating reports on the auditee's financial condition and operations accurately and within the required deadlines. The auditor shall comment on whether, during the course of the audit, anything came to the auditor's attention to indicate that the information represented by the auditee as having been submitted to RUS in its most recent BCAS filing was not in agreement with the auditee's audited

records. If the auditee represents that an amended report has been filed, the comments must be related to the amended report.

(4) For grantees, provisions related to:

(i) Recipients of Broadband Initiatives Program loans and grants, the requirement for the recipient to prepare and furnish RUS quarterly and annual financial and operating reports on the financial condition and operations of the auditee accurately and within the required deadlines. The auditor shall comment on whether, during the course of the audit, anything came to the auditor's attention to indicate that the information represented by the auditee as having been submitted to RUS in its most recent BCAS filing was not in agreement with the audited records of the auditee. If the auditee represents that an amended report has been filed, the comments must relate to the amended report. The auditor must state whether the Annual Compliance Certificate required by the RUS Security Agreement has been filed in a timely manner with RUS.

(ii) Recipients of all other grant programs within the electric and telecommunications programs, the requirements to prepare and furnish RUS with any required financial reporting accurately and within required deadlines, as appropriate for that specific program. The auditor shall comment on whether, during the course of the audit, anything came to the auditor's attention to indicate that the information represented by the grantee as having been submitted to RUS in its most recent filing was not in agreement with the audited records of the grantee. If the grantee represents that an amended report has been filed, the comments must relate to the amended report.

(f) *Related party transactions.* Comment on whether, during the course of the audit, anything came to the attention of the auditor to indicate that all material related party transactions have not been disclosed in the notes to the financial statements in accordance with ASC 850, entitled "Related Party Disclosures".

(g) *Deferred debits and deferred credits.* For electric auditees, comment on whether, during the course of the audit

anything came to the attention of the auditor to indicate that the auditee provided detailed schedule of deferred debits and deferred credits, including, but not limited to, margin stabilization plans, revenue deferral plans, and expense deferrals is not accurately presented. This schedule must be included as supplemental information or within the notes to the financial statements; and

(h) *Investments.* For electric and telecommunications auditees, comment on whether, during the course of the audit, anything came to the auditor's attention to indicate that the auditee provided detailed schedule of investments is not accurately presented. This schedule must be included as supplemental information or within the notes to the financial statements. The auditor must state that the audit did not disclose any investments in subsidiary or affiliated companies.

§ 1773.34 Schedule of findings and recommendations.

The auditor must prepare a schedule of findings and recommendations to be included with the audited financial statements. The schedule of findings and recommendations shall be developed and presented utilizing the elements of a finding discussed in GAGAS and shall include recommendations for remediation. If the schedule does not include responses from management, as well as any planned corrective actions, those items must be submitted directly to the AA-PARA by management in accordance with § 1773.4(j).

§§ 1773.35–1773.37 [Reserved]

Subpart E—RUS Audit Requirements and Documentation

§ 1773.38 Scope of engagement.

The audit requirements set forth in § 1773.39 through 1773.45 must be met annually by the auditor during the audit of the RUS auditee's financial statements. The auditor must exercise professional judgment in determining whether any auditing procedures in addition to those mandated by GAGAS or this part should be performed on the auditee's financial records in order to afford a reasonable basis for rendering

the auditor's report on the financial statements, report on internal controls over financial reporting and on compliance and other matters, report on compliance with aspects of contractual agreements and regulatory requirements, and schedule of findings and recommendations.

§ 1773.39 Utility plant and accumulated depreciation.

(a) *General.* The audit of these accounts shall include tests of additions, replacements, retirements, and changes. The auditor's audit documentation shall support that the auditor:

(1) Examined direct labor and material transactions to determine whether the auditee's accounting records reflect a complete accumulation of costs;

(2) Examined indirect costs and overhead charges to determine if they conform to the Uniform System of Accounts or the Federal Acquisitions Regulations as required under the RUS Security Agreement;

(3) Reviewed the costs of completed construction and retirement projects to determine if they were cleared promptly from the work in progress accounts to the classified plant in service accounts and the related depreciation accounts;

(4) Examined direct purchases of special equipment and general plant;

(5) Determined the degree of accuracy and control of costing retirements, including tests of salvage and removal costs;

(6) Reviewed the auditee's work order procedures; and

(7) Reviewed depreciation rates for adequate support, and compared them to RUS guidelines to determine that they were in compliance.

(b) *Construction work in progress.* (1) The audit documentation shall include a summary of open work orders reconciled to the general ledger and note on the summary any unusual or atypical projects.

(2) The auditor's audit documentation shall support that the auditor:

(i) Reviewed equipment purchases charged to work orders, including payments and receiving reports;

(ii) Reviewed contracts showing the scope of the work, the nature of the

contract, the contract amount, and scheduled payments and reviewed supporting documents to determine that services contracted for were in fact rendered;

(iii) Reviewed time cards and pay rates for a sample of employees who allocate their time to work orders;

(iv) Reviewed the nature of material and supplies issued to the project, traced amounts and quantities to supporting documents, and reviewed the reasonableness of clearing rates for assignment of stores expense to the work order;

(v) Reviewed the accuracy of the computation of overheads applied to the work order; and

(vi) Reviewed other costs charged to the work order for support and propriety.

(3) The auditor's audit documentation shall support that the auditor:

(i) Scheduled payments to contractors and traced to verify payments and supporting invoices;

(ii) Traced contract costs to final closeout documents, to the general ledger, and to the continuing property records; and

(iii) Verified the costs of owner furnished materials, if applicable.

(4) The auditor shall review the auditee's procedures for unitization and classification of work order and contract costs. The auditor's audit documentation shall support that the auditor:

(i) Reviewed the tabulation of record units for construction from the work order staking sheets to the tabulation of record units, to the unitization sheets, and to the continuing property records;

(ii) Reviewed the procedures for unitizing and distributing costs of completed construction to the plant accounts;

(iii) Verified that standard costs were being used;

(iv) Evaluated the basis for development of standard costs; and

(v) Determined that costs of completed construction were cleared promptly from work in progress accounts.

(c) *Continuing property records.* The auditor's audit documentation shall support that the auditor:

(1) Determined whether the subsidiary plant records agree with the controlling general ledger plant accounts;

(2) Noted differences in the audit documentation; and

(3) Commented, in the report on compliance with aspects of contractual agreements and regulatory requirements, on any discrepancies.

(d) *Retirement work-in-progress.* The auditor's audit documentation shall support that the auditor:

(1) Determined that plant retirements are currently and systematically recorded and priced on the basis of the continuing property records, and determined that costs of removal have been properly accounted for;

(2) Explained the method used in computing the cost of units of plant retired if continuing property records have not been established and determined whether costs appeared reasonable; and

(3) Determined the manner in which net losses due to retirements were accounted for and traced clearing entries to the depreciation reserve, the plant accounts, and the continuing property records.

(e) *Provision for accumulated depreciation.* The auditor's audit documentation shall support that the auditor:

(1) Verified the depreciation accruals for the period, including the depreciation base;

(2) Reviewed the basis of the depreciation rates, any change in rates and the reason for the change, and, if appropriate, determined whether the rates are in compliance with RUS requirements or with the requirements of the state regulatory body having jurisdiction over the auditee's depreciation rates;

(3) Reviewed salvage and removal costs; and

(4) Searched for unrecorded retirements.

(f) *Other reserves.* The auditor's audit documentation shall include an account analysis for all other material plant reserves, such as the reserve for the amortization of plant acquisition adjustments. The auditor's audit documentation shall support that appropriate tests of transactions were performed.

(g) *Narrative.* The auditor shall include in the audit documentation a comprehensive narrative on the scope of work performed, observations made, and conclusions reached. Matters covered in this narrative shall include:

- (1) The nature of construction and other additions;
- (2) The control over, and the accuracy of pricing retirements;
- (3) The accuracy of distributing costs to classified utility plant accounts;
- (4) An evaluation of the method of:
 - (i) Capitalizing the direct loadings on labor and material costs;
 - (ii) Distributing transportation costs and other expense clearing accounts; and
 - (iii) Capitalizing overhead costs;
- (5) The tests of depreciation;
- (6) A review of agreements such as those relating to acquisitions, property sales, and leases which affect the plant accounts; and
- (7) Notations, if applicable, of RUS approval of property sales and the propriety of the disposition of the proceeds.

§ 1773.40 Regulatory assets.

The auditor's audit documentation shall support that the auditor tested whether all regulatory assets comply with the requirements of ASC 980. For Electric auditees only, the auditor's audit documentation shall support that all regulatory assets have received RUS approval.

§ 1773.41 Extraordinary retirement losses.

The auditor's audit documentation shall support that the auditor tested retirement losses, including any required approval by a regulatory commission with jurisdiction in the matter, or RUS, in the absence of commission jurisdiction.

§ 1773.42 Clearing accounts.

The auditor's audit documentation shall support that the auditor tested all clearing accounts and that transactions selected for testing were reviewed for proper allocation between expense and capital accounts.

§ 1773.43 Capital and equity accounts.

(a) *Capital stock.* For privately owned companies, the audit documentation shall include analyses of all stock transactions during the audit period. The auditor's audit documentation shall support that the auditor:

- (1) Reviewed the subsidiary records and reconciled them to the general ledger control account;
- (2) Reviewed authorizations and issuances or redemptions of capital stock for proper approvals by the governance board, stockholders, regulatory commissions and RUS, as required;
- (3) Determined that transactions were made in accordance with the appropriate provisions of the articles of incorporation, bylaws, and RUS loan documents; and
- (4) Determined that transactions were recorded in accordance with the Uniform System of Accounts.

(b) *Memberships.* For cooperative organizations, the audit documentation shall include an analysis of the membership transactions during the audit period. The auditor's audit documentation shall support that the auditor:

- (1) Reviewed the subsidiary records and reconciled them to the general ledger control account; and
- (2) Determined that transactions were made in accordance with the appropriate provisions of the articles of incorporation, bylaws, and RUS loan documents.

(c) *Patronage capital, retained earnings, margins, and other equities.* The audit documentation shall include an analysis of the patronage capital, retained earnings, margins and other equities, and any related reserve accounts. The auditor's audit documentation shall support that the auditor:

- (1) Determined that the transactions were made in accordance with the appropriate provisions of the articles of incorporation, bylaws, RUS loan documents, Uniform System of Accounts, or orders of regulatory commissions;
- (2) Traced payments to underlying support; and
- (3) Determined whether, under the terms of the RUS security instrument, restrictions of retained earnings or margins are required and, if so, whether they have been properly recorded.

§ 1773.44

§ 1773.44 Long-term debt.

The auditor's audit documentation shall support that the auditor:

(a) Confirmed RUS, FFB, and RTB debt to the appropriate confirmation schedule (RUS Form 690, Confirmation Schedule Obligation to the FFB; Form 614, Confirmation Schedule—Long-term Obligation to RUS; or, Confirmation Schedule for RTB Debt);

(b) Confirmed other long-term debt directly with the lender;

(c) Examined notes executed or cancelled during the audit period; and

(d) Tested accrued interest computations.

§ 1773.45 Regulatory liabilities.

The auditor's audit documentation shall support that all regulatory liabilities comply with the requirements of ASC 980. For electric auditees only, the auditor's audit documentation shall document whether all regulatory liabilities have received RUS approval.

§§ 1773.46–1773.48 [Reserved]

§ 1773.49 OMB Control Number.

The information collection requirements in this part are approved by the Office of Management and Budget (OMB) and assigned the OMB Control Number 0572–0095.

PART 1774—SPECIAL EVALUATION ASSISTANCE FOR RURAL COMMUNITIES AND HOUSEHOLDS PROGRAM (SEARCH)

Subpart A—General Provisions

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1774.24 Exception Authority.

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1774.100 OMB Control Number.

AUTHORITY: 7 U.S.C. 1926(a)(2)(C).

SOURCE: 75 FR 35963, June 24, 2010, unless otherwise noted.

Subpart A—General Provisions

§ 1774.1 General.

The purpose of the Special Evaluation Assistance for Rural Communities and Household (SEARCH) Grant program is to provide financial assistance to the neediest, eligible communities, who lack financial resources to pay for feasibility studies, design assistance and technical assistance. This subpart sets forth the general policies and procedures for making and processing predevelopment planning SEARCH grants for water and waste projects.

§ 1774.2 Definitions.

The following definitions apply to subparts A and B of this part.

Agency. The Rural Utilities Service of the United States Department of Agriculture (USDA) within the Rural Development mission area of the Under Secretary for Rural Development. The Processing Official will administer this water and waste program on behalf of the Rural Utilities Service.

Approval official. The Agency official at the State level who has been delegated the authority to approve grants.

ConAct. Consolidated Farm and Rural Development Act (7 U.S.C. 1926(a)(2)).

Design assistance. Preliminary design and engineering analysis necessary for an application for funding. Design assistance does not include financial assistance for development of plans, specifications, or bidding documents.

DUNS Number. Data Universal Numbering System number obtained from Dun and Bradstreet and used when applying for Federal grants or cooperative agreements. A DUNS number may be obtained at no cost, by calling 1-866-705-5711.